

Auditing Procedures Report

Issued under Public Act 2 of 1968, as amended.

Unit Name	LIVINGSTON COMMUNITY WA	County	LIVINGSTON	Type	AUTHORITY	MuniCode	47-7-528
Opinion Date	May 1, 2008	Audit Submitted	Jun 16, 2008	Fiscal Year	2007		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

- ☒ 1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
- ☒ 2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
- ☒ 3. Were the local unit's actual expenditures within the amounts authorized in the budget?
- ☒ 4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
- ☒ 5. Did the local unit adopt a budget for all required funds?
- ☒ 6. Was a public hearing on the budget held in accordance with State statute?
- ☒ 7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
- ☒ 8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
- ☐ 9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
- ☒ 10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
- ☒ 11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
- ☒ 12. Is the local unit free of repeated reported deficiencies from previous years?
- ☒ 13. Is the audit opinion unqualified? 14. If not, what type of opinion is it?
- ☒ 15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
- ☒ 16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
- ☒ 17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
- ☒ 18. Are there reported deficiencies? ☒ 19. If so, was it attached to the audit report?

General Fund Revenue:

General Fund Expenditure:

Major Fund Deficit Amount:

General Fund Balance:

Governmental Activities
Long-Term Debt (see
instructions):

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	KENNETH J.	Last Name	PALKA	Ten Digit License Number	1101020707		
CPA Street Address	225 E. GRAND RIVER, STE 1	City	BRIGHTON	State MI	Zip Code 48116	Telephone	+1 (810) 229-5550
CPA Firm Name	PFEFFER, HANNIFORD AND	Unit's Street Address	10001 SILVER LAKE R	City	BRIGHTON	Zip Code	48116

LIVINGSTON COMMUNITY
WATER AUTHORITY

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2007

LIVINGSTON COMMUNITY WATER AUTHORITY

WATER AUTHORITY BOARD

Mark St. Charles
H.E. "Bud" Prine
Cathy Doughty
Cindy Pine
Mike Bitondo
Susan Daugherty
Athena Willets

WATER AUTHORITY ATTORNEY

Neal D. Nielsen, P.C.

WATER AUTHORITY AUDITORS

Pfeffer, Hanniford & Palka
Certified Public Accountants

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PFEFFER ■ HANNIFORD ■ PALKA
Certified Public Accountants

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May 1, 2008

Livingston Community Water Authority Board
10001 Silver Lake Road
Brighton, Michigan 48116

INDEPENDENT AUDITORS' REPORT

Honorable Board Members:

We have audited the accompanying financial statements of the Livingston Community Water Authority as of and for the year ended December 31, 2007. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on the audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Livingston Community Water Authority, as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year end in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 6 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

MANAGEMENT
DISCUSSION
AND
ANALYSIS

Management Discussion and Analysis December 31, 2007

Within this section of the Livingston Community Water Authority financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2007. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's financial statements. The financial statements include all the statements required by the Governmental Accounting Standards Board and the notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The Authority's annual reports include two Authority-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Activities which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

The Authority's financial reporting includes all the funds of the Authority (primary government) and, additionally, organizations for which the Authority is accountable (component units). Since the Authority's sole purpose is to operate and manage a water system, only one fund is maintained. Thus, there are no fund financial statements prepared by the Authority.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

Financial Analysis of the Authority as a Whole

The Authority's net assets at the end of the fiscal year were \$13,549,027. This is a \$2,388,499 increase over last year's net assets of \$11,160,528.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

Summary of Net Assets

	<u>12/31/2007</u>	<u>12/31/2006</u>
Current and other assets	\$ 273,845	\$ 157,855
Restricted assets	412,493	267,199
Capital assets, net	<u>13,516,231</u>	<u>10,863,044</u>
Total assets	<u>14,202,569</u>	<u>11,288,098</u>
Accounts payable	155,889	21,594
Advances from member townships	<u>497,653</u>	<u>105,976</u>
Total liabilities	<u>653,542</u>	<u>127,570</u>
Net assets:		
Invested in capital assets	13,132,231	10,863,044
Unrestricted	<u>416,796</u>	<u>297,484</u>
Total net assets	<u>\$ 13,549,027</u>	<u>\$ 11,160,528</u>

Summary of Changes in Net Assets

	<u>12/31/2007</u>	<u>12/31/2006</u>
Operating revenues	\$ 283,282	\$ 167,589
Operating expenses	<u>457,264</u>	<u>398,661</u>
Operating (loss)	(173,982)	(231,072)
Non-operating revenues, net	<u>22,895</u>	<u>10,999</u>
Change in net assets before capital contributions	(151,087)	(220,073)
Capital contributions	<u>2,539,586</u>	<u>697,348</u>
Change in net assets	2,388,499	477,275
Beginning net assets	<u>11,160,528</u>	<u>10,683,253</u>
Ending net assets	<u>\$ 13,549,027</u>	<u>\$ 11,160,528</u>

The Authority incurred a large operating loss (\$173,982) mostly as a result of depreciation expense of \$293,232.

Capital and Debt Administration

The member townships contributed a total of \$2,400,510 based on the original intergovernmental agreement approved in a previous year. The amounts contributed per Township was as follows:

Green Oak Township	\$ 1,732,542
Brighton Township	397,600
Hamburg Township	<u>270,368</u>
Total	<u>\$ 2,400,510</u>

The contributions were used to finance the addition of an iron removal system as its treatment process. The total cost was \$2,795,343 and was completed in 2007.

Hamburg Township also started the process of constructing the water distribution system in its Township. The costs through December 31, 2007 were \$139,076 of soft costs. Actual construction is expected to begin in 2008. These costs are recorded as construction in progress on the Authority's financial statements.

The Authority has agreed to repay each member township the following which have been recorded as advances from the Township's to the Authority:

<u>Township</u>	<u>Purpose of Advance</u>	<u>Amount</u>
Green Oak	Seed money-operations	\$ 35,325
Green Oak	Iron removal system	128,000
Brighton	Seed money - operations	35,325
Brighton	Iron removal system	128,000
Hamburg	Seed money - operations	35,325
Hamburg	Iron removal system	<u>128,000</u>
Total due to Townships		<u>\$ 489,975</u>

The Authority itself does not have any long-term debt. However, the individual member townships have issued debt over the years to finance their portion of capital contributions that were required to form the Authority.

Economic Factors and Future Years' Goals

The population in the service area is expected to grow over the next several years at a slower pace than prior years due to economic conditions. However, the Authority Board believes the growth will still come over a longer period of time. Hamburg Township appears to have the next area of growth in the next year to two years.

Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have further questions about this report or request additional information, please contact the Authority at 10001 Silver Lake Road, Brighton, Michigan 48116.

LIVINGSTON COMMUNITY WATER AUTHORITY
STATEMENT OF NET ASSETS
DECEMBER 31, 2007

ASSETS

CURRENT ASSETS - UNRESTRICTED

Cash - operations	\$ 171,831
Accounts receivable - water	88,728
Accounts receivable - Green Oak Township	11,933
Accounts receivable - other	<u>1,353</u>

Total current assets - unrestricted \$ 273,845

CURRENT ASSETS (DESIGNATED)

Cash - construction	221,023
Cash - capital reserve	73,009
Cash - Saxony capital	<u>118,461</u>

Total current assets (designated) 412,493

CAPITAL ASSETS

Land	298,233
Well, building and distribution system	14,245,631
Construction in progress	<u>139,076</u>
	14,682,940
Less accumulated depreciation	<u>(1,166,709)</u>

Net capital assets 13,516,231

Total assets 14,202,569

LIABILITIES

CURRENT LIABILITIES

Accounts payable	155,887
Advances from member townships	489,975
Accrued interest payable	<u>7,680</u>

Total current liabilities 653,542

NET ASSETS

NET ASSETS

Invested in capital assets	13,132,231
Designated cash	412,493
Unrestricted	<u>4,303</u>

Total net assets \$ 13,549,027

The accompanying notes are an integral part of these financial statements.

LIVINGSTON COMMUNITY WATER AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

OPERATING REVENUES	
Billings - usage	\$ 283,282
OPERATING EXPENSES	
Accounting/audit fees	12,350
Administrative expenses	6,701
Contract labor - operations	13,250
Deferred water charges	28,857
Depreciation expense	293,232
Engineering fees	3,660
Ground maintenance	1,240
Hydrant flushing and repairs	4,126
Insurance	12,890
Meters, supplies and chemicals	17,958
Miss Dig	2,553
Office expenses	521
Per - Diem fees	6,150
Permit fees	3,845
Repairs and maintenance - other	3,513
Repairs and maintenance - pumps	4,080
Repairs and maintenance - alarms	4,775
Repairs and maintenance - water lines	2,144
Repairs and maintenance - building and grounds	327
Repairs and maintenance - meter	754
Snow removal	2,578
Telephone	362
Utilities - electric	20,417
Utilities - gas	1,476
Water testing	1,825
Total operating expenses	449,584
Operating (loss)	(166,302)
OTHER INCOME (EXPENSE)	
Interest operations	1,186
Interest - reserves	6,506
Interest - construction	2,091
Other income	13,112
Interest expense	(7,680)
Total other income (expense)	15,215
Net (loss) before capital contributions	(151,087)
CAPITAL CONTRIBUTIONS	
Infrastructure - distribution in Hamburg Township	139,076
Member contributions - cash	2,400,510
Total capital contributions	2,539,586
Net income	2,388,499
NET ASSETS, Beginning of year	11,160,528
NET ASSETS, End of year	\$ 13,549,027

The accompanying notes are an integral part of these financial statements.

LIVINGSTON COMMUNITY WATER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007

CASH FLOWS FROM (USED-IN) OPERATING ACTIVITIES

Receipts from customers	\$ 270,329	
Payments to vendors	<u>(144,990)</u>	
Net cash from operating activities		\$ 125,339

CASH FLOWS FROM (USED-IN) CAPITAL AND RELATED
FINANCING ACTIVITIES

Acquisition of property, plant and equipment	(2,685,015)	
Member contributions	2,400,510	
Advances from member townships	<u>384,000</u>	
Total cash flow from capital and related financing activities		99,495

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on cash and cash equivalents		<u>9,783</u>
Increase in cash		234,617

CASH AT JANUARY 1, 2007

349,707

CASH AT DECEMBER 31, 2007

\$ 584,324

RECONCILIATION OF OPERATING (LOSS)
TO NET CASH FROM (USED-IN) OPERATING ACTIVITIES

Operating (loss)		\$ (173,982)
Adjustments to reconcile operating income to net cash from (used in) operating activities		
Miscellaneous income	\$ 13,112	
Depreciation	293,232	
Changes in assets and liabilities		
(Increase) in accounts receivable - water billings/miscellaneous	(27,418)	
Decrease in accounts receivable - Green Oak Township	751	
Increase in accounts payable	11,964	
Increase in accrued interest payable	<u>7,680</u>	
Total adjustments		<u>299,321</u>
Net cash from operating activities		<u><u>\$ 125,339</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES
TO
FINANCIAL
STATEMENTS

LIVINGSTON COMMUNITY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 1 - DESCRIPTION OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - The Livingston Community Water Authority was established on June 23, 2000, under Act No. 233, Public Acts of Michigan, 1955 as amended. The purpose of this Authority is to acquire, own, improve, enlarge, extend, operate, maintain, manage and administer water supply systems.

The financing of the water system has taken place at the Township level and at the Authority level. Each Township has contributed to the Authority amounts based on their respective percentages based on the Master Operating Agreement. The Townships have incurred debt at the Township level to make their pro-rata contributions. The debt service funds reflecting the debt are recorded on the financial statements of each Township.

The following is a summary of contributions made by each Township through December 31, 2007.

<u>Township</u>	<u>Contributions</u>	<u>Percentage</u>
Green Oak Township	\$ 8,385,281	62.00%
Brighton Township	3,054,886	22.58%
Hamburg Township	2,085,098	15.42%
	<u>\$ 13,525,265</u>	<u>100.00%</u>

The incorporating municipalities creating the Authority are Green Oak Charter Township, Hamburg Township, and the Charter Township of Brighton, all in the County of Livingston. The Authority board is composed of two members from each of the incorporating municipalities who are voting members and a representative of Livingston Community Water Company who is a non-voting member. The treasurer is a non-voting member and is appointed by the six voting members.

Based on the criteria established by Government Accounting Standards Board (GASB) Statement Number 39, all funds, activities and agencies are included in the Authority's reporting entity.

Enterprise Funds - Enterprise funds are proprietary funds used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Basis of Accounting - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

LIVINGSTON COMMUNITY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 1 - DESCRIPTION OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. SIGNIFICANT ACCOUNTING POLICIES

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an Enterprise Fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, liabilities, net assets, revenues, and expenses. Enterprise funds account for activities:

1. that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or
2. that are required by laws or regulations that the activity's costs of providing service, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar reviews; or
3. that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

B. MEASUREMENT FOCUS

The financial activities of the Authority are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with its operations are included on the statement of net assets; revenues are recorded when earned, and expenses are recorded when liabilities are incurred.

C. CASH AND CASH EQUIVALENTS

The Authority considers its deposits and restricted deposits and investments held with maturities of three months or less as cash equivalents.

D. CAPITAL ASSETS

Capital assets are stated at cost. Depreciation and amortization are computed using the straight-line method based on the estimated useful lives of the related assets, which range from 5 to 10 years for equipment and 10 to 40 years for buildings, structures, and improvements.

E. CONSTRUCTION-IN-PROGRESS

The costs of acquisition and construction of major plant and equipment is recorded as construction-in-progress. As facilities are accepted by the Authority and become operative, they are transferred to the facilities and improvements or machinery and equipment accounts and depreciated in accordance with the Authority's depreciation policies. Costs of construction projects that are discontinued are recorded as expense in the year in which the decision is made to discontinue such projects.

F. PREMIUM AND ISSUANCE COSTS

Bond discount, premium, and issuance costs are amortized over the term of the related bonds. No such bond discount/premiums or issuance costs were outstanding or issued during the year ended December 31, 2007.

G. INVENTORY

The Authority values inventory at cost. The Authority had no inventory as of December 31, 2007.

LIVINGSTON COMMUNITY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 200,000	\$ 200,000
Uninsured and uncollateralized	<u>384,324</u>	<u>388,520</u>
Total deposits	<u>\$ 584,324</u>	<u>\$ 588,520</u>

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consist of regular quarterly billings and penalties. Each year, as of September 30, accounts receivable that are over 90 days old are placed on the tax roll for the applicable township. As of December 31, 2007, approximately \$29,506 of the outstanding \$88,728 accounts receivable went on the tax roll for collection. The Authority will receive the \$29,506 by March of 2008 through the tax collection process. The remaining accounts receivable of \$59,222 (\$88,728 - \$29,506) were under 90 days old as of December 31, 2007.

LIVINGSTON COMMUNITY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 4 - CAPITAL ASSETS

	<u>Balance 1/1/2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2007</u>
Well, building and distribution system	\$ 11,426,809	\$ 2,818,822	\$	\$ 14,245,631
Land	298,233			298,233
Construction in progress - treatment	11,479	2,795,343	2,806,822	
Construction in progress - Hamburg		139,076		139,076
	<u>11,736,521</u>	<u>5,753,241</u>	<u>2,806,822</u>	<u>14,682,940</u>
Total				
Accumulated depreciation	<u>(873,477)</u>	<u>(293,232)</u>		<u>(1,166,709)</u>
Net book value	<u>\$ 10,863,044</u>	<u>\$ 5,460,009</u>	<u>\$ 2,806,822</u>	<u>\$ 13,516,231</u>

Each Township advanced to the Authority \$128,000 to assist with the treatment (iron removal system) plant completed in 2007. Therefore, the net investment in capital assets is as follows:

Total Net Book Value	\$ 13,516,231
Less: Advances by townships	<u>(384,000)</u>
Net investment in capital assets	<u>\$ 13,132,231</u>

The "Construction in Progress - Hamburg" represents soft costs incurred by Hamburg Township through December 31, 2007 for its related water distribution system. Construction is expected to begin in 2008.

Depreciation expense related to the portion of property, plant and equipment is recorded as a current expense in these financial statements. The member townships have paid the Authority their respective portion of costs related to the construction of the water system. These payments to the Authority are recorded as revenues by the Authority in the year they are received.

Depreciation is recorded on the straight-line basis over the estimated useful life of the asset.

LIVINGSTON COMMUNITY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 5 - ADVANCES FROM TOWNSHIPS

Each Township has made advances to the Authority for start-up of operations and capital assets.

The start-up advances were made in the initial years prior to any operating revenue from usage. Each Township advanced \$35,325. The Townships and Authority have verbally agreed there would be no interest charged.

The capital advances were made in 2007 to assist with financing the treatment facility (iron removal system). Each Township advanced \$128,000. The advances accrue interest at 6%.

The following summarizes the amounts owed to each Township as of December 31, 2007:

<u>Township</u>	<u>Start-up Advances</u>	<u>Capital Advances</u>	<u>Accrued Interest</u>	<u>Total</u>
Green Oak Township	\$ 35,325	\$ 128,000	\$ 2,560	\$ 165,885
Brighton Township	35,325	128,000	2,560	165,885
Hamburg Township	<u>35,325</u>	<u>128,000</u>	<u>2,560</u>	<u>165,885</u>
Total	<u>\$ 105,975</u>	<u>\$ 384,000</u>	<u>\$ 7,680</u>	<u>\$ 497,655</u>

The Authority has included in its 2008 operating rates \$.44 per 1,000 gallons (capital charge) to repay the above advances.

NOTE 6 - STATEMENT OF CASH FLOWS

Pursuant to Governmental Accounting Standards Board (GASB) Statement Number 9, A Statement of Cash Flows is Presented. The purpose of the statement of cash flows is to explain the change in cash and cash equivalents during the year.

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less. The direct method was utilized to present cash flows from operations. The following is a summary of beginning and ending cash and cash equivalents:

	<u>12/31/2007</u>	<u>12/31/2006</u>
Cash - undesignated	\$ 171,831	\$ 82,508
Cash - designated	<u>412,493</u>	<u>267,199</u>
Total cash	<u>\$ 584,324</u>	<u>\$ 349,707</u>

LIVINGSTON COMMUNITY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 7 - ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 8 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority.

NOTE 9 - SEGMENT INFORMATION

Selected financial information is as follows:

Operating revenue	\$	283,282
Depreciation	\$	293,232
Total assets	\$	14,202,569
Total net assets	\$	13,549,027
Change in net assets	\$	2,388,499

LIVINGSTON COMMUNITY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 10 - FUTURE DEFERRED PAYMENT OBLIGATIONS

The Authority purchased the water system from Livingston Community Water Company. As part of the purchase price the Authority has agreed to pay the Livingston Water Company an amount per 1,000 gallons provided to customers. The amount paid to Livingston Water Company is based on the location of the customer (either inside the franchise area or outside the franchise area). The payments are made quarterly and are described as "Deferred Payments".

The agreement requires deferred payments for water provided inside the franchise area from January 1, 2005 through November 2034 and for water provided outside the franchise area from January 1, 2005 through November 2029.

The deferred payment is adjusted annually based on the consumer price index for the previous year; provided however, that in the event the consumer price index increases by more than 5% in any one year, the deferred payments adjustment shall be capped at 5%.

The following schedule is a summary of deferred payment information for 2007:

	Rate in Franchise Area	Rate O/S Franchise Area	Gallons Provided	Amount Paid
March 31, 2007	0.445605	-0-	4,962	\$ 2,211
March 31, 2007	-0-	0.334204	5,281	1,765
June 30, 2007	0.445605	-0-	8,689	3,872
June 30, 2007	-0-	0.334204	9,258	3,094
September 30, 2007	0.445605	-0-	16,999	7,575
September 30, 2007	-0-	0.334204	13,917	4,651
December 31, 2007	0.445605	-0-	7,622	3,396
December 31, 2007	-0-	0.334204	6,859	2,292
Total paid				<u>\$ 28,856</u>



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May 1, 2008

Board Members
Livingston Community Water Authority
10001 Silver Lake Road
Brighton, Michigan 48116

Dear Honorable Board Members:

During our audit of the Livingston Community Water Authority we came across some items we would like to discuss with you as part of our audit presentation for the year ending December 31, 2007.

1. The Authority does not have an investment policy approved by the Authority Board. We suggest that an investment policy be approved annually by the Authority Board.
2. While reviewing procedures related to billings and accounts receivable we noticed there is no policy related to "adjustments of customer accounts". It appears there are not many adjustments made during the year, nevertheless, a policy should be adopted.
3. The Authority has budgeted for transfers to reserves in its operating fund. The amounts have been based on affordability of the operations and maintenance fund.

The Authority is now bringing on existing water systems which are connecting to the Livingston County Water Authority System. Therefore, it will be the Authority's responsibility to pay for all future replacements and repairs for the existing water systems. We believe it would be in the Authority's best interest to consider an asset management report be compiled by an engineering firm. The report should show all infrastructure, replacement values, replacement dates, etc... This would give the Board a better idea of an amount that should be put into reserves annually to be prepared for future replacements.

We would like to thank the officials and employees that assisted us during the audit process.

If you should have any questions, comments or concerns please do not hesitate to call us.

This letter is intended solely for the information and use of the Board and management of the Authority and is not intended to be and should not be used by anyone other than the specified parties.

Pfeffer, Hanniford & Palka, P.C.

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